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3
4 MEETING
5 OF THE
6 GOVERNING BOARD OF
7 CHICAGO DEVELOPMENT FUND

8 City Hall - Room 1000
9 121 North LaSalle Street
10 Chicago, Illinois

11 Thursday, September 5, 2013
12 11:06 a.m.

13 Mr. Andrew Mooney, Chairman
14 Alderman Thomas Tunney
15 Ms. Stephanie Neeley
16 Ms. Aarti Kotak
17 Mr. Scott Fehlan
18 Ms. Alex Holt
19 Mr. Mitchell D. Holzrichter
20 Ms. Stephanie Neeley
21 Ms. Lois Scott
22 Mr. Tony Smith
23 Mr. Gerald H. Alder
24 Ms. Tracy Sanchez
Ms. James Simmons
Ms. Angela Hurlock

Reported by: Donna M. Urlaub
CSR No. 084-009993

1 CHAIRMAN MOONEY: Welcome everyone.

2 The first item of business is
3 approval of the minutes of the June 4th meeting.

4 Is there a motion?

5 ALDERMAN TUNNEY: Motion. Move.

6 CHAIRMAN MOONEY: And second?

7 MS. HOLT: Second.

8 CHAIRMAN MOONEY: It's been moved and
9 seconded.

10 All those in favor say aye.

11 (Chorus of ayes.)

12 MS. NEELEY: I abstain.

13 CHAIRMAN MOONEY: It's approved.

14 I turn it over to Tony for update of
15 the status for the projects.

16 MR. SMITH: Shouldn't we do a roll call?

17 CHAIRMAN MOONEY: Oh, I'm sorry. Let's go
18 around the table.

19 MS. NEELEY: Stephanie Neeley.

20 MS. HOLT: Alex Holt.

21 ALDERMAN TUNNEY: Tom Tunney.

22 CHAIRMAN MOONEY: Andy Mooney.

23 MS. SCOTT: Lois Scott.

24 CHAIRMAN MOONEY: Thank you. Thanks for

1 reminding me of that. Okay.

2 MR. SMITH: So previously approved
3 transactions, our traditional summary here of
4 chronologically all the deals that the Board has
5 approved that are still active or closed.

6 So all of this should be very
7 familiar, but the 2013 has had some new
8 information.

9 So Shops and Lots of 47, as of the
10 last meeting, had successfully closed. That
11 remains under construction.

12 MS. NEELEY: Where is that again?

13 MR. SMITH: It's 47th and Cottage Grove.

14 MS. NEELEY: Oh, okay.

15 MR. SMITH: Southwest corner.

16 MS. NEELEY: That's where the Wal-Mart is
17 going?

18 MR. SMITH: Yes.

19 MS. NEELEY: I didn't know it had a name.

20 MR. SMITH: Actually, I guess it's
21 technically an @ sign, not the word "at." So
22 that's the name.

23 MS. KOTAK: Even hipper.

24 MR. SMITH: So Near North Health Service

1 Corporation was approved at the most recent
2 Governing Board meeting. That is still in the late
3 stages of the closing process with anticipated
4 to -- yet to happen this month.

5 ACE Solar, the solar retrofit deal
6 of multiple affordable housing properties around
7 the Northwest Side is likewise still in the closing
8 stages but likewise still getting very close to
9 closing of that transaction, it would seem.

10 And then Breakthrough Urban
11 Ministries FamilyPlex, also approval at the last
12 meeting, it's going to take a little bit longer to
13 close, probably something in the four- to eight-
14 week time frame is the, kind of the best estimate
15 right now. So that would push us into probably the
16 fourth quarter for completing that deal.

17 As far as status of closed projects
18 as far as construction and opening, all but three
19 of the projects are in service. Mercy Oakwood
20 Shores Terraces, which is a mixed use, mixed income
21 housing over a health clinic and medical office at
22 37th and Cottage Grove was the most recent actually
23 opened. It was a great event down there about a
24 month back. That building is fully operational at

1 this point.

2 And then Swedish Covenant Hospital,
3 the Erie Family Health Clinic that's in their
4 facility at Foster and California likewise had a
5 ribbon cutting within the last 45 days.

6 Chicago Family Health Center is the
7 next one that's going to be placed in service.
8 They're actually scheduling an event in conjunction
9 with the open enrollment date for the Affordable
10 Care Act insurance exchanges on October 1st
11 for their facility down at 115th Street and
12 St. Lawrence Avenue in Pullman.

13 And then the Leslie Shankman School
14 and Shops and Lofts are more in the mid stages of
15 construction with a fair amount of work yet to do.

16 MS. KOTAK: Members like sort of notice of
17 openings when we get them. And I know your
18 schedule is really tight.

19 MS. SCOTT: Absolutely.

20 MS. KOTAK: We'll do that. And we're working
21 with the Mayor's office on the Family Health
22 Centers.

23 CHAIRMAN MOONEY: Okay. Any questions? No?

24 I would encourage you either at the

1 groundbreakings, ribbon cuttings, or just as you're
2 out and about, to take a look at some of these
3 projects. They are quite impressive.

4 The Shops and Lofts is a wonderful
5 addition to the Bronzeville community. The
6 Shankman School is really the first new
7 institutional use, on 63rd Street just east of
8 Cottage, in decades. So these are really important
9 projects, and I think we'd be proud of them.

10 ALDERMAN TUNNEY: I, unfortunately, have been
11 at Swedish Covenant with an elder, but I haven't
12 gone to the new medical office. I've actually been
13 in the emergency room with other things. But I
14 will make it.

15 MR. SMITH: Well, thanks to that new
16 building, there's probably less traffic in the
17 emergency room because they took some of the acute
18 care, that function, into the new building.

19 CHAIRMAN MOONEY: I've spent many hours in
20 the emergency room too, unfortunately. Okay.

21 Really the bulk of our discussion
22 today is on the new allocation that we will be
23 making shortly. We have to make a -- one or two
24 important decisions this morning in preparation for

1 that.

2 So, Tony, if you want to lead up.

3 MR. SMITH: Sure. So we're in the throes of
4 the drafting process for CDF's 2013 fiscal year
5 New Markets allocation application. The due date
6 for submittal to the Treasury is September 18th.

7 So this is something of an
8 interesting round in that there's definitely
9 \$3 1/2 billion of national allocation available
10 that was part of the two-year extension that
11 Congress passed on the first of this year.

12 But the CDFI funds, the division of
13 Treasury that administers this program has taken
14 an interesting step in anticipation of potential
15 overhaul of the tax code; so they have packaged
16 this round as a 2013/14 round, basically to give
17 themselves flexibility in case the New Markets
18 program is reauthorized early, as perhaps part of a
19 tax code overhaul.

20 If that happens before early 2014,
21 theoretically Treasury could choose to allocate
22 this year's three and a half plus the fiscal 2014
23 allocation of up to \$5 billion. So there could be
24 this \$8 1/2 billion mega round theoretically just

1 tied to this single application.

2 In practice, that's quite unlikely.

3 I mean, the New Markets Tax Credit Coalition, which
4 is the primary industry association that tries to
5 get the program extended, has specifically said we
6 don't think this is going to happen, we don't think
7 the tax code's going to get overhauled that early
8 in the cycle.

9 We're pleased the Treasury is taking
10 these steps to expand the program, but it really
11 just seems like something of a kind of a symbolic
12 gesture, if nothing else.

13 But basically the program lags one
14 fiscal year, so the 2012 fiscal year credits were
15 what were allocated in 2013; so this would be a
16 catchup essentially to tie the fiscal year to the
17 allocation year.

18 There will be an allocation
19 application round next summer. It's not that
20 they're skipping a year; it's that they will be
21 catching up and possibly doubling up if this
22 congressional action surprises us all and happens
23 quickly.

24 What I think is much more likely to

1 happen is that \$3 1/2 billion will be available to
2 allocate, but the application count may be through
3 the roof since everybody's going to think, oh,
4 \$8 1/2 billion is available, I'd better put an
5 application this round, this is the year to do it.

6 So no way to get any statistics on
7 that yet, but after the applications go in, we'll
8 know what the competitiveness level was for this
9 particular year.

10 So in terms of the anticipated ask
11 that the CDF would be making, each year Treasury
12 puts a cap on the amount that CDEs are authorized
13 to ask for in their application. This year's
14 official cap is \$125 million.

15 There's a lot of signals from
16 Treasury that you should not ask for more than you
17 can credibly defend in terms of your deployment and
18 track record and your actual current pipeline of
19 deals in that they not only would disregard too
20 large of an ask, but also perhaps penalize you or
21 take you out of the running if they think you're
22 being unrealistic.

23 So for that reason, we would suggest
24 applying for no more than \$100 million, but we're

1 kind of settling in on a number just a little bit
2 south of that that's specifically tied to pipeline
3 deals. So that's the current proposal on the table.

4 MS. NEELEY: So 95 to 100; is that what
5 you're thinking?

6 MR. SMITH: Yeah. I think 97.6 is the
7 current number that we're carrying.

8 MS. SCOTT: Why do you think the theoretical
9 maximum is 125?

10 MR. SMITH: That's just -- with the federal
11 notice the Treasury puts out for a new allocation
12 round, they say do not apply for more than 125.
13 Last year it was 100, but this year it's 125.

14 We anticipate probably, if it's a
15 \$3 1/2 billion round, another year of probably
16 75 to 85 total awards to CDEs across the country.

17 So, again, a limited pool of
18 awardees with a growing pool of applicants.
19 Tremendously competitive.

20 If there's an \$8 1/2 billion round,
21 probably a longer list of allocates would happen.

22 MS. NEELEY: And that theoretical maximum
23 doesn't go up.

24 MR. SMITH: No. Yeah, it's a single

1 theoretical maximum regardless of what they do with
2 the 2014 credits.

3 As far as the investment strategy
4 that's proposed for this application, so CDF so
5 far has done senior and subordinate debt, has
6 not provided any equity financing, although you
7 technically can in the New Markets program. It
8 would seem prudent to reserve the flexibility to do
9 equity in case there's a deal that for some reason
10 has that profile and would benefit the most from
11 that structure.

12 So what we would suggest is
13 emphasizing senior and subordinate debt as the
14 likely tools, but then reserving equity flexibility
15 and signaling that that's just a just-in-case
16 mechanism.

17 Emphasis on being very flexible in
18 structuring, doing smaller deals than are typical
19 in the New Markets Program. There's a lot of
20 policy emphasis on making this program accessible
21 to small businesses, so CDF has actually got a
22 pretty good track record of doing deals in the
23 \$5 to \$7 million range, which is kind of a rare
24 size for New Markets transactions nationally. So

1 just kind of playing that up, we think it's due to
2 CDF's efficiency and its low fee structure that
3 it's able to make these deals happen and still
4 deliver a good net benefit to the borrower.

5 Geographic focus, there's eligible
6 census tracts and then there's distressed census
7 tracts. To be competitive, you definitely have to
8 do at least 75 percent of your deals in distressed
9 census tracts. CDF so far has a perfect track
10 record of 100 percent in distressed tracts. And we
11 would suggest stating in the application that that
12 would be the continued practice.

13 There's not a lot of tracts in
14 Chicago that are qualified but not distressed.

15 As far as the project categories
16 to emphasize, high quality jobs; so industrial
17 expansions being a good source of those, although
18 health care jobs with CDF's growing health care
19 portfolio should also be emphasized as a good
20 accessible but high quality growing sector job
21 focus.

22 Nonprofits that provide deeply
23 needed services to low income populations. So,
24 again, health care, education, job training, the

1 services that wrap around traditional secondary
2 education, et cetera.

3 Grocery anchored retail and healthy
4 foods access projects, and then sustainability kind
5 of as a thread through all the projects.

6 CDF actually has a substantial
7 portfolio of LEED buildings, including three LEED
8 Platinum structures. So that's a pretty noteworthy
9 track record, we think. And then with the ACE
10 Solar transaction that's on the verge of closing,
11 that's a true renewable energy transaction. It's
12 not tied to a specific building.

13 MS. SCOTT: Those are our focuses. What are
14 the program focuses? Are there any areas from the
15 federal government that they feel they have not
16 been able to really make happen that's going to
17 provide us an opportunity to really show what we
18 can do?

19 MR. SMITH: Well, so the -- let's see. The
20 10 community impact categories in the application
21 are jobs, accessible jobs, high quality jobs. So
22 jobs, jobs, jobs. Signaling from Treasury as to
23 what they really care about.

24 Community services, which would be

1 education, health care, et cetera.

2 Commercial services. So certainly
3 grocery stores qualify, but other types of retail
4 if it's an underserved neighborhood.

5 Minority business.

6 Sustainability.

7 Housing. CDF has not done a housing
8 deal so far, but has done a couple mixed use
9 transactions.

10 MR. SIMMONS: Healthy foods.

11 MR. SMITH: Healthy foods, true.

12 So CDF has hit basically every
13 category except for direct financing of housing.

14 And we haven't done a ton of retail,
15 we've just done the Shops and Lofts deal. So the
16 spin there being, you know, we do healthy foods
17 retail, other kind of core services; we don't
18 do, you know, big box retail or, I don't know, a
19 lot of restaurant financing or things like that.
20 We focus mainly on kind of core services tied to
21 health and well being.

22 So I think a pretty -- pretty
23 consistent with the statutory goals.

24 ALDERMAN TUNNEY: How do they mandate, or do

1 they, in regards to the whole construction end of
2 it, to have trades being developed for, you
3 know, job training that gives the masons, the
4 electricians, the plumbers? Is there any -- the --
5 you know, we all talk about how many construction
6 jobs versus how many, you know, whatever, but in
7 the construction jobs -- which I think we really
8 need a lot more minorities, not just flaggers --

9 MR. SMITH: Right.

10 ALDERMAN TUNNEY: -- you know? What are we
11 doing about that?

12 MR. SMITH: Sure.

13 ALDERMAN TUNNEY: Or is there any incentive
14 to -- on the construction end of it?

15 MR. SMITH: If you have -- that's one of the
16 things you can talk about in your minority business
17 impacts, community impacts section in the
18 application. And so CDF actually has good stats in
19 terms of construction participation by MBE firms.
20 And we do track that. Many of the projects --

21 ALDERMAN TUNNEY: But developing job training
22 skills. I mean, we've had this problem with the
23 unions and such. What are we doing about, in the
24 public domain, in regards to really reinforcing

1 getting skills for minority construction trades?
2 You know? I mean, I -- we talk about jobs, jobs,
3 jobs. I mean, there are some very good jobs with
4 apprentice programs. And how do we link those two?

5 MR. SMITH: Yeah, I'd say CDF's training
6 deals so far have really been the Greater West Town
7 project, which has mainly focused on logistics in
8 warehousing industry, as well as high quality wood
9 working. So maybe some linkages to construction,
10 but not kind of in the core of the construction
11 industry. And then the Instituto Health Sciences
12 Career Academy, which is really, you know, college
13 prep, plus adult training that's focused on the
14 health care and health IT sectors. So we do
15 definitely want to play those up in the application.

16 So far I'd say on the training side,
17 I don't know if I can point to anything that CDF's
18 financed directly that's like a training facility
19 for construction, but a lot of --

20 ALDERMAN TUNNEY: But there is no benefit,
21 I mean, in terms of your categories for jobs, about
22 specifically the trades.

23 MR. SMITH: I mean, certainly the
24 participation level by disadvantaged firms is

1 heavily referenced. If we happen to finance a
2 training facility or another kind of project that
3 had a unique construction training feature, that
4 would certainly be, I think, discussed in the job
5 accessibility section. So far I don't think we
6 have that deal, but it's --

7 ALDERMAN TUNNEY: It's a recurring issue on
8 the Council. In our city, I should say.

9 MR. SMITH: Yes. I'd say what we don't have
10 that perhaps some other CDEs have around the
11 country is a monster jobs deal. In part, that's
12 because Chicago has small real estate assets, small
13 firms, that's kind of the core of manufacturing
14 industry at this point.

15 You know, there are occasionally
16 stories of, you know, thousand job tire
17 manufacturing plants in the Sun Belt getting
18 financed with New Markets, and we just don't seem
19 to have a lot of opportunities to touch projects
20 like that.

21 So the thought this year is to
22 really tell that story, explain that, look,
23 those -- you know, the hundred acre manufacturing
24 campuses have left Chicago. Right now we have

1 these niche firms, we have proximity to labor
2 force, specialization, et cetera. We want to
3 support that, along with the CSI initiative. But
4 we will not be probably financing, you know, huge
5 auto plants or anything like that.

6 CHAIRMAN MOONEY: On the whole true, but not
7 necessarily always going to be true.

8 MR. SMITH: We'd love to do a deal like that
9 if it comes along.

10 CHAIRMAN MOONEY: You're not excluding that
11 event.

12 MR. SMITH: No, we're not.

13 MS. SCOTT: No, but it would take up a lot
14 more allocation. I mean, those larger deals are
15 going to come with a larger amount that we can do,
16 which shuts out some smaller guys that we might --

17 CHAIRMAN MOONEY: That kind of deal we could
18 probably share with some other CDEs as well.

19 MR. SMITH: Yes. A lot of it's sort of
20 packaging what you've been able to do so far and
21 kind of drawing the strategic threads through it,
22 and then pointing to the future deals you know
23 about now. And so that's currently the profile.

24 CHAIRMAN MOONEY: But I think Tony's right

1 that the Treasury's emphasis on small business
2 development, we have a good track record and we
3 should tout that, without overpromising what we're
4 going to do.

5 MR. SMITH: That's all I have.

6 MS. NEELEY: Do we need a motion on that?

7 MS. SCOTT: A motion for the amount.

8 CHAIRMAN MOONEY: Yeah, we will in a second.
9 I think, though, we should take just a couple of
10 minutes.

11 Tony and Aarti, if you would, if you
12 recall, the last application, ours, among other
13 major cities, like Los Angeles, were turned down.
14 And the Board expressed its dismay, as well as my
15 own dismay.

16 So we have been trying to do a fair
17 amount of leg work since then with our Washington
18 office and others to try and figure out the best
19 way to position ourselves going into this
20 application.

21 Perhaps the two of you could talk a
22 little bit about that.

23 MS. KOTAK: Sure. We had a conversation with
24 Treasury that our D.C. office facilitated. And so

1 during that conversation they reiterated a couple
2 things. There wasn't too much that was new, but it
3 was helpful to hear it directly from them.

4 None of them are the reviewers, and
5 so they sort of gave their caveats where they had
6 suggestions.

7 One of the things they mentioned was
8 getting out as much of your allocation as you can
9 both by the application deadline and then by the
10 end of the year; the idea being nothing that would
11 be new to you, that you prove that you are actually
12 using the credits, then you're in a better position
13 to identify the need for credits in the following
14 year. So that was one of the biggest things that
15 we heard.

16 They also -- you know, there's a
17 balance between identifying what you've done and
18 then getting folks, readers, the proposal readers,
19 application readers, excited about what is yet to
20 come. So those are two of the things that -- two
21 of the takeaways that we had from our conversation
22 with them.

23 It was a good conversation. The
24 door was open for repeated conversations. As we're

1 looking through the application -- or as Tony and
2 his team are drafting and the city team is
3 reviewing it, we're pulling in our D.C. office, so
4 they're also giving it a screen to make sure we're
5 covering what they think Treasury's hot buttons are
6 to the point of what aspects of our program should
7 we highlight versus others.

8 So we're cognizant jobs -- they
9 also, not only in their underlying regs, but in
10 the call, said that that's critical. So we're
11 highlighting both what we've done as to jobs and
12 also what we anticipate doing.

13 The biggest piece -- one of the
14 biggest pieces for us, I think, in the application
15 is really identifying that we do deals no one
16 else -- that would not happen but for us, that we
17 do them in the neighborhoods that need us the most,
18 that we coordinate our deals with the City as far
19 as housing, economic development, zoning, and other
20 agencies within the city, and that the big piece
21 for me is that but for us, these wouldn't happen.

22 So the great stories that come out
23 of the Kroc Center or Shankman School, any of
24 those, we are the key; we are not one little piece

1 of a much broader deal that U.S. Bank or someone
2 else could have come in and done it.

3 So we're trying to emphasize that
4 and sort of get their attention that way, the point
5 being to distinguish it. But that's sort of how
6 we've -- that's the conversation we've had.

7 Tony, I don't know if there's
8 anything you want to add.

9 MR. SMITH: Sure. Yeah, a couple other kind
10 of nuances there. I mean, the program continues to
11 be dominated by national footprint CDEs who are
12 able to just kind of pick and choose the cream of
13 the crop deals that are ready to go at the times
14 they need them to be, that have the, just the
15 absolute best community impacts. And there's
16 nothing CDF can do to really mimic that. There's
17 only so many real New Markets investment
18 opportunities available each year for a local CDE.

19 But what we can do is emphasize that
20 we have kind of a deep understanding of Chicago's
21 issues, and we can do programmatic initiatives.

22 So, for example, we have five health
23 care deals that are going to be on line as of the
24 end of this year. All community health clinics.

1 All in deeply distressed neighborhoods. We can
2 track those impacts as a group, and we can tie it
3 back to the City's articulated clinic service goals.

4 I mean, the Department of Health has
5 an FQHC patient visits target for 2020. We can add
6 those up, we can benchmark it against that, we can
7 report it in CDF's annual report.

8 ALDERMAN TUNNEY: So since this is going to
9 be a national issue about community health clinics
10 all over the country, what makes Chicago so unique?

11 MR. SMITH: Sure.

12 ALDERMAN TUNNEY: Because I would think, with
13 the Affordable Health Care Act, there's going to be
14 many, many applications for these FQHCs.

15 MR. SMITH: That's a great point. FQHCs
16 remain probably one of the most attractive
17 categories for every CDE across the country.

18 I'd say that we certainly don't want
19 to shy away from that category for that reason, but
20 we definitely want to make it clear that, you know,
21 not only have we done a lot of FQHCs, but we're
22 tying it to a local public health initiative and
23 tracking it in that context, tracking the impacts
24 on, let's say, diabetes rates, or diabetes

1 hospitalization rates in the surrounding census
2 tracts over time, and really making it into a
3 programmatic thing instead of just one-off deals
4 here and there across the country.

5 MS. KOTAK: I think our leverage is the
6 distinguishing factor there, that we leverage our
7 work. U.S. Bank has one deal doing health care,
8 and they do that deal. We do five deals in the
9 city, we not only -- leverage that work not only
10 against each other, but also against the work that
11 we're doing with our own city initiatives.

12 And so that's a distinguishing
13 factor that a national CDE like U.S. Bank or Chase
14 doesn't have that distinguishes the City from
15 someone else.

16 MR. SMITH: Right. There's a lot of emphasis
17 on consistency with local community plans and
18 initiatives. And so, you know, a national CDE
19 will frequently just say, okay, we need a support
20 letter from the municipality where the project's
21 happening. And CDF's involvement with the City's
22 initiatives goes so much beyond that. So we
23 definitely want to highlight that, that dynamic.

24 But the other point you raise is

1 on point, and that is tying to national policy
2 priorities as well, making it clear that we're not
3 just a parochial local CDE doing local things.

4 So we've tried to find some national
5 policy themes to tout here, so reshoring and
6 manufacturing being one that we actually have a
7 couple deals that are relevant to that in CDF's
8 pipeline. And we think the upper midwest is kind
9 of an epicenter of reshoring, and so we're touching
10 on that.

11 I think -- I mean, the role of FQHCs
12 is definitely a national phenomenon that's going to
13 play out differently across local geographies, so
14 we're kind of tying those two things together.

15 I feel like there's a couple others,
16 but those are the ones that are top of mind. And
17 Treasury mentioned that specifically, right,
18 national priorities.

19 MS. KOTAK: Yes.

20 ALDERMAN TUNNEY: Diabetes?

21 MR. SMITH: Yes.

22 ALDERMAN TUNNEY: Where we have some proven,
23 you know, improvements?

24 MR. SMITH: Yes.

1 CHAIRMAN MOONEY: So what I'd like to do, or
2 what we will need from you are two resolutions
3 today. One is to move ahead with the application.

4 But before we do that resolution,
5 there's another one that we need to look at. This
6 is really the big decision we have to make, and
7 that has to do with the deployment of resources.

8 One of the points the Treasury made
9 and that we may have stumbled on in the last
10 application round was that we -- I'll let Tony
11 explain it again, but you've heard this before, I
12 want to remind you of it, and then we think we have
13 a strategy this time that will help us with the
14 applications.

15 Tony.

16 MR. SMITH: So CDF, it would appear in the
17 last round, was kind of cursed by its good fortune
18 to have abundant allocation remaining and the
19 flexibility to do deals at any point in the year.
20 Many of its peer CDEs have to deploy everything,
21 go back and reload and apply for more, get it out,
22 apply for more, so there's been a boom/bust cycle
23 that they suffer from.

24 And it seems like with the continued

1 growth of the demand for the New Markets tax credit
2 and the fixed pool of allocation nationally that,
3 you know, having extra credits lying around is no
4 longer kind of a luxury that CDEs are allowed to
5 have.

6 And so definitely, you know, we saw
7 a tie between unused allocation and the results
8 from last rounds consistently around CDEs across
9 the country, not just CDF, and then Treasury
10 reinforced that on the call.

11 So the market dynamic is that
12 investors are very hungry for these tax credits
13 right now. A lot of the major banks that were kind
14 of less active in the program have faith in their
15 ongoing likelihood of having a federal tax burden
16 that they can offset with the credit. So they will
17 pre-fund any allocation they have an opportunity to
18 pre-fund is kind of the dynamic currently in the
19 market.

20 CHAIRMAN MOONEY: Remind us what pre-funding
21 means.

22 MR. SMITH: Sure. We're actually -- I've got
23 slides on that, if I can --

24 CHAIRMAN MOONEY: Go ahead.

1 MR. SMITH: Apologies for the jargon that is
2 not yet explained.

3 So very little allocation from the
4 9th round, which is the 2012 allocation CDF most
5 recently received, is currently yet unspoken for.
6 And so CDF, I think the strongest kind of
7 competitive initiative it can take at this point
8 is to commit formally most or all of that remaining
9 allocation before this application deadline, or
10 definitely by year end.

11 So just to illustrate that --

12 MS. HOLT: How much of the 37.3 is unspoken
13 for?

14 MR. SMITH: Well, so deals that are in
15 closing right now represent all but \$11 million of
16 CDF's prior allocation.

17 MS. HOLT: Of prior allocation of the 9th
18 round, or the 9th and 8th round together?

19 MR. SMITH: Combined. And I've got that math
20 on a couple slides down the road here.

21 So the recommendation -- or the
22 strategic implication we think is having less than
23 \$10 million of unclosed allocation by September 18th
24 through the full closing of deals as well as pre-

1 funding, which we'll get into in a minute, and
2 then by year end, which is the qualified equity
3 investment deadline for this year, having nothing
4 left.

5 So what is pre-funding? In a
6 typical New Markets investment, the CDE receives
7 capital from the investor, and then pushes it down
8 to the borrower in the same flow of funds. It's a
9 series of wires that happen on the same day.

10 And in a pre-funding, those two
11 events are broken in two. The investor capitalizes
12 the CDE, and the CDE holds the funds, and in
13 practice the investor retains a very tight control
14 over the funds through pledges and block to count
15 agreements.

16 But by funding into the CDE, you're
17 irrevocably committing that set of allocation to
18 that investor, they can start claiming the New
19 Markets Tax Credit, and if you were to unwind that
20 investment, there would actually be a recapture of
21 that particular set of tax credits, probably the
22 sort of thing that a CDE would not recover from
23 reputationally.

24 And so when you pre-fund, you have

1 12 months to push the capital down to a qualifying
2 project. You may get another six months, depending
3 on various circumstances that are tied to some IRS
4 private letter rulings, but nobody really wants to
5 test that if they can avoid it.

6 So pre-funding is something that you
7 can do to show Treasury, look, we've irrevocably
8 committed this allocation, we have received funds
9 from investors for this amount of our prior credits.

10 And so many CDEs employ that
11 strategy to signal progress and need for more
12 allocation.

13 MS. NEELEY: And if the project doesn't go
14 forward, then it just goes back into the pot?

15 MR. SMITH: Well, so you can't unwind that
16 investment. You're stuck with the dollars you
17 received. You need to find a new place to push
18 them down to. So basically you're joined at the
19 hip with the investor agreeing to cooperate and
20 find mutually satisfactory projects within the time
21 frame that you have.

22 MS. SCOTT: So we find a bank, then we say
23 you're going to get \$20 million or \$10 million or
24 whatever it is, they'll find the project.

1 MR. SMITH: Right.

2 MS. NEELEY: I don't like that idea.

3 MR. SMITH: It's not pleasant to contemplate.

4 And so far, when CDF has done it, it's been with
5 deals that were in closing. So Shops and Lofts is
6 the most recent one, PCC Wellness --

7 MS. NEELEY: And that makes sense. But just
8 sort of a blind, go find us a deal, and then we're
9 joined at the hip with people who may not ever find
10 us deals that we would like.

11 MR. SMITH: Well, we get to propose the deals
12 too. And so I think having a pipeline that we
13 believe in and we are making progress with is the
14 key part of that.

15 MS. SCOTT: And, let's face it, there's only
16 a couple banks that are doing it.

17 MS. NEELEY: That's a good point.

18 MS. SCOTT: Two or three. How many have we
19 worked with?

20 MR. SMITH: Four at this point. But, yes,
21 definitely you want to pre-fund with a bank that's
22 got a very active New Markets footprint and that
23 you have a trust relationship with and having done
24 lots of prior work with so that they don't

1 blindsided you with a deal that you don't want to do
2 at the last minute.

3 MS. NEELEY: So you're comfortable with that.

4 MR. SMITH: As comfortable as I can be.

5 So --

6 MS. SCOTT: Don't the feds look at that and
7 say that's really not --

8 MS. NEELEY: The spirit?

9 MS. SCOTT: I mean, they must see the games
10 going on.

11 MR. SMITH: They probably should, but they
12 don't seem to. And that's part of what was
13 upsetting about the last allocation round is a lot
14 of the CDEs that did get credits appear to have
15 pre-funded heavily.

16 CHAIRMAN MOONEY: Very heavily in certain
17 circumstances.

18 MS. NEELEY: Rewarding bad behavior.

19 MR. SMITH: Yes.

20 CHAIRMAN MOONEY: We were trying to play it
21 straight, and they weren't.

22 MR. SMITH: Yesterday I heard of a CDE in an
23 adjoining state who finally got their pre-funded
24 dollars out on, I think it was day 355 out of the

1 365 they had. We don't want to be in that
2 situation.

3 So I guess the good news is that we
4 have prior approved deals that are in the closing
5 process with a very strong likelihood of closing
6 that make up the bulk of the pre-funding activity
7 we're talking about here.

8 So Breakthrough Urban Ministries
9 being the largest chunk, \$13 million, that deal is
10 in closing, probably a couple months away at most
11 from pushing the dollars down.

12 The resolutions in front of you
13 today also include the flexibility to pre-fund for
14 Near North Health Services Corp., which is 11.45,
15 and for ACE, which is 6.25. But that's sort of a
16 backup plan. We anticipate those deals will actual
17 not need to pre-fund, they will just fund and pull
18 by the application deadline.

19 And then, finally, the, kind of the
20 more speculative piece, and this is really the new
21 departure for CDF, would be flexibility to pre-fund
22 up to the full remaining \$11 million of kind of
23 uncommitted allocation at the discretion of the
24 president of CDF between now and 12/31.

1 In practice, we think the most
2 likely and most prudent way to approach that is
3 probably to pre-fund \$5 million, sort of an open
4 pre-funding by the application deadline, and then
5 the remaining 6 by 12/31; so we stagger it and
6 don't have a ticking clock on both pieces of
7 allocation at the same time.

8 MS. HOLT: So you're saying Near North and
9 ACE are going to close in the next week?

10 MR. SMITH: Yes. We've talked a little bit
11 about some of this, but kind of the risks are that
12 if you don't agree upon a final investment with the
13 investor, they do have the right to take their
14 capital back, which it automatically triggers a
15 recapture. Alternately, they can remove CDF as the
16 manager of its own subsidiary CDE and push the
17 dollars out to a qualified investment to save the
18 credits.

19 I'm not aware of that ever happening
20 in the New Markets program. In practice, it's a
21 small pool of investors, everybody's very
22 reputation driven, nobody wants to do things like
23 that because it would be very damaging to both
24 parties, and so there's a lot of mutual incentive

1 to push the dollars out to a good project. But
2 that is legally the rights that the investor has.

3 And then, as I mentioned, all but
4 \$11 million of the pre-funded amount that would be
5 authorized under the proposed resolutions is tied
6 to specific projects with near term closings.

7 So that's kind of the landscape at
8 this point.

9 MS. SCOTT: Well, one of the other risks that
10 strikes me is we have to figure out which bank to
11 work with. Or -- because you have to close it with
12 somebody, right?

13 MR. SMITH: Right.

14 MS. SCOTT: And if all the projects are at
15 one bank and we fund it with another, that's
16 problematic.

17 MR. SMITH: There is theoretically also a way
18 that a new bank can buy out the prior investment,
19 and there's language in each of the online
20 agreements that allows for that. In practice,
21 that's a nice safety belt to have for that very
22 reason.

23 MS. SCOTT: Have we thought about what
24 process we would use to pick a bank? Will we just

1 pick whoever's been most active, or will we
2 actually ask them for ideas or projects that might
3 be in the hopper that they're aware of that might
4 be appropriate?

5 MR. SMITH: Sure. Well, so the deals that
6 are approved already, they already have investors
7 tied to them.

8 MS. SCOTT: Right.

9 MR. SMITH: So Near North is Chase --

10 MS. SCOTT: Right.

11 MR. SMITH: -- Breakthrough is PNC, ACE is
12 PNC.

13 MS. SCOTT: Right.

14 MR. SMITH: That's really the 11.

15 Yeah, our recommendation would
16 probably be to fund the \$5 million with Chase given
17 that their New Markets team sits here in Chicago.
18 There's a lot of track record working with them.

19 We do have a couple of kind of
20 medium range pipeline prospects where Chase could
21 potentially be --

22 MS. SCOTT: So we work with Chase, PNC, MB,
23 and who's the fourth?

24 MR. SMITH: MB is not invested, they just do

1 loans into our deals.

2 MS. SCOTT: Loans. Okay.

3 MR. SMITH: But U.S. Bank and Northern Trust.

4 MS. SCOTT: U.S. Bank and Northern Trust.

5 MR. SMITH: And Chase is by far the dominant
6 investor in that pool. I think PNC would come in
7 second after these closings occur. Then Northern
8 Trust and U.S. Bank are kind of similar, about
9 \$21 million each.

10 MS. SCOTT: Does No. 2 try harder than No. 1?
11 That's an Avis commercial. I don't know. That's
12 the issue that I struggle with. Just because
13 they're the biggest and they've done the most
14 doesn't mean they're the most aggressive today on
15 new projects. I'm not saying they're not, it's an
16 uncomfortable spot just to be in.

17 CHAIRMAN MOONEY: Chase does have an
18 estimable record, and they're very active, very
19 engaged in the city. I know the projects. I feel
20 very comfortable with them.

21 We haven't done as many deals
22 with PNC. I think Chase is, again, our preferred --

23 MS. SCOTT: How many deals have we done with
24 Northern, U.S. Trust, and PNC?

1 MR. SMITH: Northern is two, but they are an
2 extremely limited investor in this program. I
3 don't think they have pre-funded anybody to date.
4 They've done probably five transactions total in
5 their life.

6 MS. SCOTT: Okay.

7 MR. SMITH: They would be completely off the
8 table, in my view, for that.

9 U.S. Bank is probably the largest
10 investor nationally in the program. We've done two
11 transactions with them totaling \$21 million. They
12 would be, you know, also kind of a legitimate
13 pre-funding opportunity. We just have a less
14 recent track record with U.S. Bank, and their
15 New Markets team is headquartered out of St. Louis.
16 They don't have as much kind of local boots on the
17 ground presence that Chase would have.

18 MS. SCOTT: And PNC?

19 MR. SMITH: PNC has got a good community
20 lending here in Chicago, and then Milwaukee is the
21 originator that serves Chicago. So better than
22 U.S. Bank in terms of kind of local attention, but
23 not as good as Chase.

24 MS. SCOT: And how many deals have we done

1 with them?

2 MR. SMITH: We closed one with PNC and then
3 ACE and Breakthrough are both also with PNC.

4 MS. SCOTT: So the recent deals are working
5 more with PNC.

6 MR. SMITH: Probably evenly with PNC and
7 Chase. The Shops and Lofts, which was the last
8 closing, was with Chase.

9 CHAIRMAN MOONEY: Okay. So we understand
10 what we're thinking about?

11 MS. NEELEY: Yes.

12 CHAIRMAN MOONEY: Again, this is to, we think
13 prudently, position us to be more competitive in
14 the upcoming application round. I think Tony and
15 staff have thought it through pretty well at this
16 point.

17 Any comments?

18 MS. SCOTT: I would like there still to be
19 some kind of a process as opposed to just picking a
20 name.

21 MS. NEELEY: Me, too.

22 MS. SCOTT: Even if it's a letter from
23 U.S.'s president just saying we're interested in
24 identifying ideas for pre-funding. If you're

1 interested, please send a letter back with ideas
2 for projects, or something.

3 CHAIRMAN MOONEY: Tony, isn't that what we
4 have normally done?

5 MR. SMITH: I've never heard of a process
6 like that being done for pre-funding. I think
7 it's -- I mean, in general the CDE should have a
8 pipeline that it thinks it's going to put forth
9 as the deals to do, rather than relying on the
10 investors to find deals. In fact, in the
11 application there's a question, do you let the
12 investors bring deals to you, or do you find your
13 own deals? And it would be desirable to say the
14 latter.

15 MS. NEELEY: Okay.

16 MS. HOLT: Do we have a pipeline of deals?

17 MR. SMITH: Yes.

18 MS. HOLT: So if there's a concern about a
19 process, can we have some sort of --

20 MS. SCOTT: Just attach it and say --

21 MS. HOLT: -- documentation saying this is
22 what we're considering. Would you be --

23 MS. SCOTT: Interested in.

24 MS. HOLT: Yeah. I mean, that could be the

1 other way to go about it; I don't know.

2 CHAIRMAN MOONEY: Do you think there would be
3 a problem from, let's say, Chase's point of view,
4 then doing that?

5 MR. SMITH: So just to clarify what the
6 proposal is, there would be a letter from them
7 saying we -- we're aware of your pipeline, we like
8 these deals, that kind of thing, or ...

9 MS. NEELEY: A noncommitment commitment.

10 MR. SMITH: Okay. So the --

11 ALDERMAN TUNNEY: Meaning for pre-funding
12 our pipeline projects.

13 MR. SMITH: So, in other words -- I mean,
14 the pre-funding is legally binding documentation.
15 We're talking about an overlay that's sort of an
16 MoU that there's a couple deals that we both think
17 are good candidates, and they're validating that
18 they also think they're good candidates, that kind
19 of thing.

20 MS. NEELEY: Yes.

21 MR. SMITH: Okay.

22 MS. NEELEY: How long will that take, do you
23 think?

24 MR. SMITH: I can check into that. I'm not

1 certain of the feasibility of that, but we'll move
2 quickly and see what can be done.

3 MS. SCOTT: I just think we need to have some
4 basis for selecting other than that we have worked
5 with them in the past.

6 MR. SMITH: I think the other basis for sort
7 of my personal recommendation of Chase is that if
8 we look at the deals that are in closing right now,
9 Breakthrough is the only one that's probably not
10 going to close by September 18th, and so we would
11 have \$13 million of pre-funding exposure with PNC
12 already from that.

13 MS. NEELEY: Okay.

14 MS. SCOTT: That's good.

15 MR. SMITH: So spreading it around would be
16 desirable.

17 MS. NEELEY: That's defendable, I think.

18 MS. SCOTT: We need some process, whether
19 that's a report from you on experience and data
20 and things like that to date, or -- and why we'd
21 recommend one or the other, or we have some type of
22 solicitation to them to see who's even willing and
23 interested in doing it on the time frames that we
24 have available. I just think there's something

1 needed other than ...

2 CHAIRMAN MOONEY: So why don't you prepare a
3 memo to the Board that we'll make -- that we'll
4 attach to the minutes --

5 MR. SMITH: Sure.

6 CHAIRMAN MOONEY: -- that -- on your
7 recommendation on how we proceed.

8 MR. SMITH: Okay.

9 CHAIRMAN MOONEY: And why we're proceeding
10 that way, and whatever affirmations then that Chase
11 can give us as part of that.

12 MR. SMITH: Yeah. So, I mean, it sounds
13 like we would need name a couple pipeline deals
14 potentially in that --

15 MS. SCOTT: That type of deal.

16 MR. SMITH: Yeah. And then Chase would
17 hopefully affirm that they also think those are
18 good mutual investment opportunities. Yeah. Okay.
19 I think that should be doable.

20 CHAIRMAN MOONEY: Good. One thing I want to
21 point out -- and I should never ask a question I
22 don't know the answer to; I'm going to -- of that
23 \$11 million that's open, I remind the Board that
24 \$6 million of that had been devoted to the

1 potential grocery store in Roseland. It's been
2 an outstanding commitment for --

3 MS. NEELEY: A while.

4 CHAIRMAN MOONEY: -- a long time. Five years?

5 MR. SMITH: 2011 I think the terms sheet was
6 signed.

7 ALDERMAN TUNNEY: Would that be Aldi?

8 CHAIRMAN MOONEY: Yes. And we've been
9 holding it out there in the hope that an Aldi would
10 come along or some other user would come along. So
11 far nothing has happened to that.

12 I did ask Tony -- and this is my
13 question -- to contact the developer yesterday and
14 see if there was any activity that we should be
15 aware of.

16 MR. SMITH: I have not been able to get a
17 response. I did reach out.

18 CHAIRMAN MOONEY: So our intent will be to
19 notify the developer that we're moving ahead in
20 the way that we're proposing that it's -- I cannot
21 imagine that at this point they'd be able to come
22 in with a deal that we'd be able to close by the
23 end of the year anyhow, because there's also TIF
24 involved and PD and all sorts of --

1 MS. NEELEY: Who's the main bank?

2 MR. SMITH: For Roseland Plaza? It likely
3 would be Northern Trust, at least on the lending
4 side.

5 CHAIRMAN MOONEY: So we're taking a little
6 bit of a risk. But if they were to come in, and we
7 were successful in getting a new allocation, then
8 we'd put them under the new allocation. But I just
9 want to make sure the Board is aware of that as we
10 proceed.

11 MR. SMITH: Right. And also I guess, as a
12 side comment, if that -- if the project is ready to
13 go after the next allocation round, and CDF, for
14 some unfortunate reason, doesn't get an award, I do
15 think that's the type of deal that would appeal to
16 other investors serving Chicago, and we could do
17 everything we could in terms of bully pulpit and
18 outreach and all that to try to find a home for
19 them.

20 MS. SCOTT: I think five years is a
21 reasonable window to give people an opportunity.

22 CHAIRMAN MOONEY: Yeah.

23 MS. SANCHEZ: Just to let you know, I did
24 talk to Beth McGuire, who's the staff contact on

1 the TIF side, yesterday, and she said that they
2 were actually in for their building permit that
3 would actually encompass the Aldi store portion of
4 the development, and they were supposed to get it
5 by September. She was going to check if they
6 actually had received it yet or not.

7 The other point that she's made is
8 that there is a scenario under which they could
9 actually finance the Aldi part of the project
10 without us, without CDF. So we'll see where that
11 goes. But it's a larger development; they might
12 actually be able to do at least the Aldi piece
13 without our financing.

14 MS. SCOTT: We'll probably keep it open for
15 five years and they'll decide they don't need it.

16 MS. HOLT: I don't know what good building
17 permits do them without financing in place.

18 MS. SANCHEZ: I think their understanding
19 is they could actually finance Phase 1-A of their
20 development with their bank, which I believe is
21 Northern Trust, without TIF or the New Markets,
22 it's really the phase like 1-B, and so -- and then
23 a larger part of the redevelopment of the shopping
24 mall that they would need the additional dollars

1 for. So just FYI.

2 CHAIRMAN MOONEY: Okay. We have three
3 resolutions in front of us you should have in your
4 packet. Two of them are related to pre-funding and
5 one to the actual application itself.

6 Tony, do you or one of your
7 colleagues want to speak to particularly the two
8 pre-funding resolutions?

9 MR. SMITH: Sure. One of the two is an
10 authorization to pre-fund against any of the prior
11 approved transactions that are active. So that
12 would be the Breakthrough, Near North, and ACE
13 transactions, with those specific investors.

14 And then the second one is
15 flexibility at the discretion of the authorized
16 reps, which is the president, and I believe the
17 vice president, Aarti Kotak, to execute up to
18 \$11 million in open pre-funding by 12/31, but not
19 authorization to deploy those funds to a project.
20 So, in other words, the Board would have review of
21 the ultimate destination of those funds as the next
22 step.

23 And then the third resolution is
24 authorization to submit a New Markets application

1 in this upcoming round that's substantially
2 consistent with the strategies that we talked about
3 in this meeting.

4 CHAIRMAN MOONEY: And then our approval of
5 the resolutions for pre-funding, you will be
6 preparing a memorandum to the Board on the
7 recommendation on where the pre-funding will be
8 placed.

9 MR. SMITH: Yes.

10 ALDERMAN TUNNEY: Just so I know, this idea
11 of the \$11 million, \$6 million is earmarked towards
12 this Aldi Project?

13 MS. SANCHEZ: Roseland Plaza.

14 CHAIRMAN MOONEY: It had been. It's one
15 of --

16 ALDERMAN TUNNEY: But if we pre-fund
17 something else, what are we -- that's what I need
18 to know. Just to understand it one more time.

19 CHAIRMAN MOONEY: Walk him through the
20 mechanics.

21 MR. SMITH: Sure. So once you -- when you
22 pre-fund, you receive the funds from the investor,
23 but you then at that point work with the investor
24 to designate where they're going to go to the

1 ultimate project. And so, you know, theoretically
2 we could receive a pre-funding for \$6 million in,
3 let's say October, and then decide that, in March,
4 that those dollars should go to Roseland Plaza, and
5 as long as that transaction can feasibly come
6 together, that's where the dollars could go. But
7 the investor that we took the pre-funding from
8 would have to be comfortable with the Roseland deal
9 and, you know, interact successfully with the other
10 parts of their financing structure.

11 So that would be kind of the -- I
12 would suggest, if we're pre-funding \$5 million at
13 the application deadline, over the next couple of
14 months there's a lot of effort to, number one,
15 finding a home for that \$5 million and, number two,
16 finding a couple other deals where the \$6 million
17 could go, and then making a very careful pre-
18 funding decision before year end for that last
19 chunk.

20 ALDERMAN TUNNEY: Okay. Thank you.

21 CHAIRMAN MOONEY: Any other questions?

22 If not, why not, for the sake of
23 efficiency, take one motion to approve all three
24 resolutions.

1 MS. SCOTT: Motion.

2 MS. NEELEY: Second.

3 CHAIRMAN MOONEY: Any further discussion?

4 If not, all those in favor say aye.

5 (Chorus of ayes.)

6 Any no?

7 (No response.)

8 It passes. Thank you.

9 I think that's the extent of our
10 business today.

11 MS. NEELEY: Motion to adjourn.

12 CHAIRMAN MOONEY: Motion on the table to
13 adjourn. All those in favor say aye.

14 (Chorus of ayes.)

15 CHAIRMAN MOONEY: Before we completely
16 adjourn, I just want to say hello to Angela Hurlock
17 who has joined us, and who is on our Advisory
18 Board. I'm sorry I didn't give you an opportunity
19 to speak earlier, but we didn't have any actual
20 projects.

21 MS. HURLOCK: It was totally fine. I just
22 came to see how this works.

23 MS. SCOTT: What's your background?

24 MS. HURLOCK: I'm the executive director OF

1 Claretian Associates. We are a nonprofit out in
2 the south area, South Chicago, South Shore. My
3 background is architecture and business.

4 MS. SCOTT: Fantastic.

5 CHAIRMAN MOONEY: Angela does a wonderful job
6 in the area around 95th and Commercial.

7 MS. HURLOCK: That's right.

8 CHAIRMAN MOONEY: And has a number of very
9 successful programs.

10 MS. SCOTT: Thanks for joining us.

11 CHAIRMAN MOONEY: Okay. With that, thank you
12 all very much.

13 (The meeting adjourned at
14 11:52 a.m.)

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1 STATE OF ILLINOIS)
) SS.
2 COUNTY OF DuPAGE)

3

4 I, Donna M. Urlaub, do hereby certify that
5 the foregoing Report of Proceedings was recorded
6 stenographically by me and was reduced to
7 computerized transcript under my direction, and
8 that the said transcript constitutes a true record
9 of the proceedings.

7

8 I further certify that I am not a relative
9 or employee or attorney or counsel of any of the
10 parties, or a relative or employee of such attorney
11 or counsel, or financially interested directly or
12 indirectly in this action.

10

11 IN WITNESS WHEREOF, I have hereunto set
12 my hand and affixed my seal of office at Chicago,
13 Illinois, this 18th day of September 2013.

12

13

14

15 Illinois CSR No. 084-000993
16 Notary Public, DuPage County, Illinois
17 My commission expires January 5, 2014

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